Government of Newfoundland and Labrador
Department of Finance

Newfoundland and Labrador Municipal Financing Corporation

Annual Report

March 31, 2012

Newfoundland and Labrador Municipal Financing Corporation
Annual Report
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September 26, 2012

Honourable Thomas W. Marshall, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Marshall:

In accordance with Section 13 of the *Municipal Financing Corporation Act,* section 9 of the *Transparency and Accountability Act* and on behalf of the Board of Directors, it is my pleasure to submit the annual report of the Newfoundland and Labrador Municipal Financing Corporation (NMFC) summarizing the Corporation's activities for the fiscal year ended March 31, 2012.

NMFC was established to consolidate the long-term borrowing programs of all municipalities in one central crown agency. The proceeds of these borrowings were then used to provide long-term financing to meet the capital requirements of municipalities. As most municipal projects were cost shared with the Province, the financing provided was recovered partially from the municipality with the balance, representing the Province's share, paid by the Department of Municipal Affairs.

However, NMFC's mandate and role evolved over time to a situation whereby most municipalities were capable of financing their capital programs independently through financial institutions, primarily banks. NMFC continued to borrow to provide financing for the Provincial share of capital projects for a period of time but, in 2005-06, Government decided it would no longer finance its portion of municipal capital projects but would fund it directly through annual budgetary allocations. Consequently, NMFC discontinued its capital markets borrowing program and its mandate is now to wind up operations when it collects its outstanding loans receivable and repays its outstanding debenture debt. This report outlines the progress made in 2011-12 on the collection of outstanding receivables and payment of outstanding debenture debt.

The Board of Directors has approved the financial statements and information contained in this annual report, and the Board is accountable for the results reported herein.

Sincerely,

Laurie Skinner

Laurie Skinner
Chair of the Board

CORPORATE OVERVIEW

Authority

The Newfoundland and Labrador Municipal Financing Corporation (NMFC) was established in 1964 and operates pursuant to the provisions of the *Municipal Financing Corporation Act*. NMFC operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

Purpose

The Corporation was established to consolidate the long-term borrowing programs of all municipalities in one central crown agency.

The vision of the Department of Finance is of a vibrant and self-reliant economy and prosperous people. This is supported by NMFC. The mission of the Department of Finance is to support Government in its commitment to fiscal sustainability and a healthy economy for the Province. By March 31, 2014, NMFC will have continued to follow the mission of the department by supporting the Province's fiscal management through the collection of outstanding loans receivable and the repayment of outstanding debenture debt.

Board Representation and Accountability

The affairs of NMFC are overseen by a Board of Directors appointed by the Lieutenant Governor in Council. All Board members are employees of the Province with the position of Chair held by the Deputy Minister of Finance. The Board meets no less often than annually and approves its Annual Financial Statements and Annual Report, both of which are then tabled in the House of Assembly by the Minister of Finance. The members of the Board as at March 31 and their positions were as follows:

Mr. Terry Paddon (Chair)
Deputy Minister of Finance

Mr. Brent Meade
Deputy Minister of Innovation, Business and Rural Development

Ms. Sandra Barnes
Deputy Minister of Municipal Affairs

Ms. Laurie Skinner
Assistant Deputy Minister of Taxation and Fiscal Policy
Department of Finance

Mr. Paul Myrden (Secretary)
Director of Debt Management
Department of Finance

Operational and Corporate Information

NMFC has no direct employees as the day-to-day affairs are administered by employees of the Department of Finance. On a quarterly basis, the Province invoices NMFC for its share of the salary costs of the employees who are involved in its administration. Contact information is as follows:

Mailing Address:

Newfoundland and Labrador
Municipal Financing Corporation
c/o Department of Finance
Confederation Building
East Block, Main Floor
P. O. Box 8700
St. John's, NL
A1B 4J6

Office Location:

Debt Management Division
Department of Finance
Confederation Building
East Block, Main Floor
Telephone: (709)-729-6686
Fax: (709) 729-2070

Departmental Website:

www.gov.nl.ca/fin

SHARED COMMITMENTS

An important issue for the Corporation, and the Province as guarantor of the Corporation's debenture debt, is the level of municipal loan arrears. Loan arrears at March 31, 2012 amounted to $3.9 million (2011 - $4.5 million). Historically, the Corporation collected a significant amount of arrears through the interception of municipal operating grants and from allocations from a Reserve Fund established with the Corporation and funded by the Province to assist towns most in need. Subject to the approval of the Minister of Finance, the Fund was periodically allocated as the Department of Municipal Affairs (MA) completed negotiations with town councils to determine the eligible levels of financial assistance towards arrears.

Given that NMFC is no longer borrowing and lending the proceeds to municipalities, it does not have sufficient leverage with individual municipalities that can be used to collect outstanding amounts receivable. Consequently, the Corporation is reliant on MA to take the necessary action to address outstanding arrears as MA has some additional measures available to address problems arising from the municipalities' inability to pay the arrears, such as the interception of municipal payments and the suspension of further capital funding.

During the 2009-10 year, the Corporation reached an agreement with MA on a strategy to reduce and ultimately eliminate arrears on municipal loans. The components of this strategy were as follows:

- MA would make a lump sum payment of $4 million to the Corporation. This was received in November 2009.
- This $4 million would be combined with existing Debt Relief funding of $1.77 million for a total of $5.77 million available to be applied against arrears.
- The Corporation would discontinue the application of late fees on accounts in arrears effective November 1, 2009.
- MA would negotiate repayment arrangements with communities in arrears and provide the Corporation with periodic direction on the application of the $5.77 million to individual accounts in arrears.
- MA would monitor active loan payments and implement additional collection efforts as required.

In addition to the agreed payment of $4 million, a further $1 million was paid by MA to the Corporation in March, 2010 for future application against arrears bringing the total available to $6.77 million.

During 2010-11, MA entered into repayment arrangements with ten municipalities in arrears with NMFC. As a result of these negotiations, as at March 31, 2011 a total of $46,220 in late fees relating to five municipalities was allocated from the Reserve Fund and applied to their arrears.

Also in 2010-11, $1,997,271 was allocated from the Reserve Fund and applied to arrears relating to two municipalities that had gone through amalgamation during the fiscal year and were not part of the agreements that MA had entered into with the ten municipalities.

As a result of the 2010-11 repayment arrangements, during 2011-12 a total of $145,777 in late fees relating to nine municipalities was allocated from the Reserve Fund and applied to their arrears, leaving a balance in the Fund of $4.58 million to be applied in future years.

HIGHLIGHTS AND ACCOMPLISHMENTS

Government has decided that, going forward, the Corporation will not be used as a vehicle to finance the Province's share of the cost of municipal capital projects. Since most of the Province's municipalities already arrange long-term financing from the banks and other financial institutions, the Corporation is in the process of winding up operations as it collects the loan portfolio and retires its debenture debt and this process continued during the fiscal year.

Collection of outstanding loans receivable amounted to $17.9 million as the Corporation's loan portfolio was reduced from $86.2 million to $68.3 million. During the same period, outstanding accounts receivable, consisting of arrears on loan payments, decreased from $4.5 million to $3.9 million.

The net debenture debt of the Corporation decreased from $80.4 million to $55.3 million due to loan repayments of $25.1 million during the year.

REPORT ON PERFORMANCE

Progress on Strategic Priorities

As a result of a Government policy decision, NMFC discontinued its capital markets borrowing program several years ago with any subsequent municipal requirements to be met through the annual budgetary process. Consequently, NMFC is currently in the process of gradually winding down its operations through the collection of its outstanding loans receivable and retirement of its remaining debenture debt as it matures. This activity was the focus of NMFC's 2011-14 Activity Plan. As detailed below, NMFC has met its collection and repayment objectives for 2011-12.

Objective:

By March 31, 2012, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections for the fiscal year 2011-12.

Objective for Fiscal Year	Debt Maturities ($ thousands)	Loan Collections ($ thousands)
2011-12	$ 25,116	$ 17,907

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $17,907.
- Net outstanding debenture debt reduced by $25,116.

Results of 2011-12 Objective (amounts in thousands):

- Net outstanding loans to municipalities reduced by $17,944.
- Net outstanding debenture debt reduced by $25,116.

2011-12 objective of reducing net balances of outstanding loans receivable and debenture debt payable have been met.

Objective – 2012-13:

By March 31, 2013, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections for the fiscal year 2012-13.

Objective for Fiscal Year	Debt Maturities ($ thousands)	Loan Collections ($ thousands)
2012-13	$ 19,816	$16,602

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $16,602.
- Net outstanding debenture debt reduced by $19,816.

OPPORTUNITIES AND CHALLENGES AHEAD

The major challenge for the upcoming year will be the continuing implementation of the strategy agreed to with MA in 2009-10 with respect to outstanding municipal arrears as detailed in the Shared Commitments section.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The financial statements of the Newfoundland and Labrador Municipal Financing Corporation are the responsibility of management and have been prepared in accordance with Canadian public sector accounting principles. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which the financial statements were prepared.

The Auditor General of Newfoundland and Labrador, appointed as the external auditor under the *Municipal Financing Corporation Act*, performed an audit on the financial statements in accordance with Canadian generally accepted auditing standards. The Auditor's Report attached to the financial statements outlines the scope of the examination and contains the Auditor General's opinion on the Corporation's financial statements.

AUDITOR'S REPORT & AUDITED FINANCIAL STATEMENTS

The audited Financial Statements are attached.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

FINANCIAL STATEMENTS

31 MARCH 2012

Management's Report

Management's Responsibility for the Newfoundland and Labrador Municipal Financing Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Municipal Financing Corporation.

On behalf of the Newfoundland and Labrador Municipal Financing Corporation.

Laurie Skinner, CA
Chairperson

Paul Myrden, CA
Director, Debt Management

28 August 2012

OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Municipal
Financing Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Municipal Financing Corporation which comprise the statement of financial position as at 31 March 2012, 31 March 2011 and 1 April 2010, the statements of operations and accumulated surplus, change in net financial assets, and cash flows for the years ended 31 March 2012 and 31 March 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

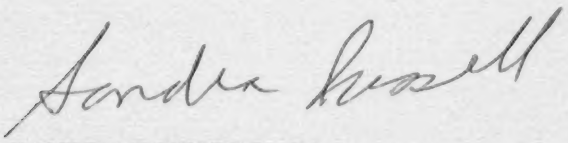
...2

Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Municipal Financing Corporation as at 31 March 2012, 31 March 2011 and 1 April 2010 and its financial performance and its cash flows for the years ended 31 March 2012 and 21 March 2011 in accordance with Canadian public sector accounting standards.



SANDRA RUSSELL, CA
Deputy Auditor General

28 August 2012
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

STATEMENT OF FINANCIAL POSITION

As at

	31 March 2012	31 March 2011	1 April 2010
	(000's)	(000's) Restated (Note 2)	(000's) Restated (Note 2)
FINANCIAL ASSETS			
Cash and term deposits	$ -	$ 4,117	$ -
Investment - coupons (at cost) (Note 5)	313	657	1,319
- earned interest receivable	262	497	803
Accounts receivable	3,913	4,502	6,800
Accrued interest receivable	379	562	765
Loans receivable (Note 6)	68,279	86,223	106,692
	73,146	96,558	116,379
LIABILITIES			
Bank indebtedness	373	-	985
Accounts payable and accrued liabilities	47	27	52
Accrued interest payable	205	391	622
Debenture debt (Note 7)	55,262	80,378	98,944
Reserve fund (Note 8)	4,581	4,727	6,770
	60,468	85,523	107,373
Net financial assets	12,678	11,035	9,006
NON-FINANCIAL ASSETS			
Deferred charges (Note 9)	88	136	200
Accumulated surplus	$ 12,766	$ 11,171	$ 9,206

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board of Directors: Laurie Skinner
Chairperson

Director

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the Year Ended 31 March

	2012 Budget	2012 Actual	2011 Actual
	(000's)	(000's)	(000's) Restated
	(Note 12)		(Note 2)
REVENUES			
Interest on loans to municipal corporations	$ 5,704	$ 5,705	$ 7,199
Interest on investments	83	89	89
Prepayment penalties	-	6	-
	5,787	5,800	7,288
EXPENSES			
Administrative and miscellaneous	117	112	126
Amortization of deferred charges:			
Issue expenses on debenture debt	35	35	45
Premiums and discounts on debenture debt	13	13	19
Interest on long-term debt	4,045	4,045	5,126
Interest - other	-	-	7
	4,210	4,205	5,323
Annual surplus	1,577	1,595	1,965
Accumulated surplus, beginning of year	11,171	11,171	9,206
Accumulated surplus, end of year	$ 12,748	$ 12,766	$ 11,171

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the Year Ended 31 March

	2012 Budget	2012 Actual	2011 Actual
	(000's)	(000's)	(000's) Restated (Note 2)
	(Note 12)		
Annual surplus	$ 1,577	$ 1,595	$ 1,965
Use of deferred charges	48	48	64
Increase in net financial assets	1,625	1,643	2,029
Net financial assets, beginning of year	11,035	11,035	9,006
Net financial assets, end of year	$ 12,660	$ 12,678	$ 11,035

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended 31 March

	2012	2011
	(000's)	(000's) Restated (Note 2)
Operating transactions		
Annual surplus	$ 1,595	$ 1,965
Adjustment for non-cash items		
Accrued interest income on coupons	(24)	(48)
Amortization of issue expenses on debenture debt	35	45
Amortization of premiums and discounts on debenture debt	13	19
	1,619	1,981
Change in non-cash working capital	606	2,245
Cash provided from operating transactions	2,225	4,226
Investing transactions		
Investment - coupons redeemed	603	1,016
Loan payments received from municipal corporations	17,944	20,469
Cash provided from investing transactions	18,547	21,485
Financing transactions		
Retirement of debenture debt	$ (25,116)	$ (18,566)
Reserve fund allocations made	(146)	(2,043)
Cash applied to financing transactions	(25,262)	(20,609)
Increase in cash/decrease in bank indebtedness (decrease in cash/increase in bank indebtedness)	(4,490)	5,102
Cash and term deposits (bank indebtedness), beginning of year	4,117	(985)
Cash and term deposits (bank indebtedness), end of year	$ (373)	$ 4,117

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

The Newfoundland and Labrador Municipal Financing Corporation (the Corporation) is a Crown corporation of the Province of Newfoundland and Labrador, established under the *Municipal Financing Corporation Act*. The purpose of the Corporation is to provide long-term financing for the capital requirements of municipal corporations by the issuance of its securities, and relending the funds to municipal corporations. The Corporation's affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province of Newfoundland and Labrador (the Province). The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

2. Conversion to Canadian Public Sector Accounting Standards

Commencing with the 2012 fiscal year, the Corporation has adopted Canadian public sector accounting standards (PSAS). These financial statements are the first financial statements for which the Corporation has applied Canadian public sector accounting standards. The changeover became effective on 1 April 2011 with retroactive application to 1 April 2010.

In accordance with Section PS 2125, *First-time Adoption by Government Organizations*, the Corporation has prepared reconciliations to enable readers to understand the effects of the changeover on its comparative results and its financial position.

Statement of operations reconciliation

The following table presents the reconciliation of the statement of operations from the previous reporting framework to the current method of presentation for the year ended 31 March 2011.

2. Conversion to Canadian Public Sector Accounting Standards (cont.)

Statement of operations	Canadian generally accepted accounting principles 31 March 2011	Adjustments	Canadian public sector accounting standards 31 March 2011
REVENUES			
Interest on loans to municipal corporations	$ 7,199	$ -	$ 7,199
Short term interest	89	-	89
Amortization of deferred revenue:			
Prepayment penalties	68	(68)	-
	7,356	(68)	7,288
EXPENSES			
Administrative and miscellaneous	126	-	126
Amortization of deferred charges:			
Issue expenses on debenture debt	45	-	45
Premiums and discounts on debenture debt	19	-	19
Interest on long-term debt	5,126	-	5,126
Interest - other	7	-	7
	5,323	-	5,323
Annual surplus	$ 2,033	$ (68)	$ 1,965

Statement of financial position reconciliation

The following tables present the reconciliation of the statement of financial position from the previous reporting framework to the current method of presentation at 31 March 2011 and at the transition date 1 April 2010.

2. Conversion to Canadian Public Sector Accounting Standards (cont.)

Statement of financial position	Canadian generally accepted accounting principles 31 March 2011	Adjustments	Canadian public sector accounting standards 31 March 2011
FINANCIAL ASSETS			
Cash and term deposits	$ 4,117	$ -	$ 4,117
Investment - coupons (at cost)	657	-	657
- earned interest receivable	497	-	497
Accounts receivable	4,502	-	4,502
Accrued interest receivable	562	-	562
Loans receivable	86,223	-	86,223
	96,558	-	96,558
LIABILITIES			
Bank indebtedness	-	-	-
Accounts payable and accrued liabilities	27	-	27
Accrued interest payable	391	-	391
Debenture debt	80,378	-	80,378
Deferred revenue	105	(105)	-
Reserve fund	4,727	-	4,727
	85,628	(105)	85,523
Net financial assets	10,930	105	11,035
NON-FINANCIAL ASSETS			
Deferred charges	136	-	136
Accumulated surplus	$ 11,066	$ 105	$ 11,171

2. Conversion to Canadian Public Sector Accounting Standards (cont.)

Statement of financial position	Canadian generally accepted accounting principles 1 April 2010	Adjustments	Canadian public sector accounting standards 1 April 2010
FINANCIAL ASSETS			
Cash and term deposits	$ -	$ -	$ -
Investment - coupons (at cost)	1,319	-	1,319
- earned interest receivable	803	-	803
Accounts receivable	6,800	-	6,800
Accrued interest receivable	765	-	765
Loans receivable	106,692	-	106,692
	116,379	-	116,379
LIABILITIES			
Bank indebtedness	985	-	985
Accounts payable and accrued liabilities	52	-	52
Accrued interest payable	622	-	622
Debenture debt	98,944	-	98,944
Deferred revenue	173	(173)	-
Reserve fund	6,770	-	6,770
	107,546	(173)	107,373
Net financial assets	8,833	173	9,006
NON-FINANCIAL ASSETS			
Deferred charges	200	-	200
Accumulated surplus	$ 9,033	$ 173	$ 9,206

The above adjustments relate to deferred revenue. Under Canadian generally accepted accounting standards, the amounts received from municipal corporations as penalties for the early retirement of debt were deferred and then amortized into revenue over a 5 year period. Under Canadian PSAS, these amounts do not meet the definition of a liability. As a result, the balance of deferred revenue at the date of transition was reviewed and it was determined that the entire balance should be recognized as revenue in accordance with Canadian PSAS. Accordingly, adjustments were made to retroactively apply the standard.

3. Summary of significant accounting policies

(a) Basis of accounting

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB).

(b) Premiums, discounts and issue expenses on debenture debt

Premiums, discounts and issue expenses are deferred and amortized on a straight-line basis over the life of the debenture issue to which they relate. In the case of the early retirement of debenture debt, a proportionate amount of the deferred balance is included with the gain or loss in the determination of net income for the period.

(c) Investments

Investments include Government of Canada coupons recorded at the lower of cost or market value.

(d) Loans receivable

Loans receivable are recorded at cost. Provisions exist for the recovery from the Province of any defaults by municipal corporations and as such no allowance for doubtful accounts has been provided. Interest is accrued on loans receivable to the extent it is deemed collectible.

(e) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

(f) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

4. Accounting pronouncements

In December 2010, the PSAB amended Section PS 3410, *Government Transfers*. The main changes pertain to recognition criteria for government transfers, affecting how the Corporation accounts for such transfers. These amendments are effective for fiscal years beginning on or after 1 April 2012, but earlier adoption is encouraged. The Corporation believes there to be no future impact with regard to this standard.

In March 2011, the PSAB approved new Section PS 3450, *Financial Instruments*, Section PS 2601 to replace current Section PS 2600, *Foreign Currency Translation* and Section PS 1201 to replace current Section PS 1200, *Financial Statement Presentation*. Government organizations are required to adopt the three sections in the same year. In addition, in March 2012, the PSAB approved Section PS 3041, *Portfolio Investments*, to replace Section PS 3040, *Portfolio Investments*. The four sections are effective 1 April 2012 for government organizations but earlier adoption is permitted. The Corporation is still evaluating the impact of adopting these new sections in the coming year.

5. Investments

Investments consist of 24 Government of Canada coupons that were purchased between 30 December 1997 and 10 June 2005, and mature between 1 June 2012 and 1 December 2016. Settlement values of these securities ranged from $103 to $17,523 with a total cost of $312,997 (2011 - $657,348, 2010 - $1,319,563), while maturity values range from $167 to $36,838 and have a total maturity value of $595,165.

6. Loans receivable

As at 31 March 2012, loans receivable from municipal corporations were $68,279,518 (2011 - $86,223,354, 2010 - $106,691,932). Interest rates range from 6.375% to 12.000%.

Loans to municipal corporations are made on the security of their debentures. Provisions exist for the recovery from the Province of any defaults by municipal corporations. Therefore, no allowance for doubtful accounts has been provided.

Principal payments receivable are as follows:

Year	Amount (000's)
2013	$ 16,590
2014	14,155
2015	11,630
2016	9,297
2017	6,980
Thereafter	9,627
	$ 68,279

7. Debenture debt

The Corporation's debenture debt is unconditionally and fully guaranteed as to principal, interest and sinking fund payments, if any, by the Province. Details of debt outstanding are as follows:

Series	Remaining Term	Interest Rate %	31 March 2012 (000's)	31 March 2011 (000's)	1 April 2010	
MFC-36			$ -	$ -	$ 1,250	
MFC-37			-	-	2,000	
MFC-38	1 Jun 2012-13	5.875 - 6.000	2,500	3,750	5,000	(a)
MFC-39	16 Dec 2012-13	6.125	2,000	3,000	4,000	(b)
MFC-40	14 Dec 2012-14	6.800 - 6.850	3,000	4,000	5,000	(c)
MFC-41			-	-	1,000	
MFC-42			-	2,500	4,200	
MFC-43	20 Sep 2012-16	6.250 - 6.500	10,000	12,800	15,600	(d)
MFC-44	15 Mar 2013-17	5.875 - 6.125	5,000	6,000	7,000	(e)
MFC-45	26 Mar 2013	5.375	10,000	12,000	14,000	(f)
MFC-46			-	10,000	10,000	
MFC-47	17 Mar 2013-19	4.750 - 5.200	8,862	10,128	11,394	(g)
MFC-48	29 Mar 2013-20	4.700 - 5.200	13,900	16,200	18,500	(h)
Total			$ 55,262	$ 80,378	$ 98,944	

(a) MFC-38: On 1 June of each year, the Corporation is to redeem $1,250,000 in the years 2012 to 2013 inclusive.

(b) MFC-39: On 16 December of each year, the Corporation is to redeem $1,000,000 in the years 2012 to 2013 inclusive.

(c) MFC-40: On 14 December of each year, the Corporation is to redeem $1,000,000 in the years 2012 to 2014 inclusive.

(d) MFC-43: On 20 September of each year, the Corporation is to redeem $2,000,000 in the years 2012 to 2016 inclusive.

(e) MFC-44: On 15 March of each year, the Corporation is to redeem $1,000,000 in the year 2013 to 2017 inclusive.

(f) MFC-45: On 26 March 2013, the Corporation is to redeem $10,000,000.

(g) MFC-47: On 17 March of each year, the Corporation is to redeem $1,266,000 in the years 2013 to 2019 inclusive.

7. Debenture debt (cont.)

(h) MFC-48: On 29 March of each year, the Corporation is to redeem $2,300,000 in the years 2013 to 2015 inclusive and $1,400,000 in the years 2016 to 2020 inclusive.

Estimated debenture maturities are as follows:

Year Ending 31 March	Debenture Maturities (000's)
2013	$ 19,816
2014	9,816
2015	7,566
2016	5,666
2017	5,666
Thereafter	6,732
	$ 55,262

8. Reserve fund

The Province has historically funded a reserve fund established to mitigate arrears with respect to municipal loans. The reserve fund is allocated as the Department of Municipal Affairs concludes negotiations with various municipal corporations with respect to restructuring debt due to the Corporation.

The year end reserve fund balance is as follows:

	31 March 2012	31 March 2011	1 April 2010
	(000's)	(000's)	(000's)
Reserve fund, beginning of year	**$ 4,727**	$ 6,770	$ 1,770
Add: funds advanced to Corporation during year	**-**	-	5,000
Less: funds allocated during year	**(146)**	(2,043)	-
Reserve fund, end of year	**$ 4,581**	$ 4,727	$ 6,770

9. Deferred charges

	31 March 2012 (000's)	31 March 2011 (000's)	1 April 2010 (000's)
Issue expenses on debenture debt	$ 62	$ 97	$ 142
Premiums and discounts on debenture debt	26	39	58
	$ 88	$ 136	$ 200

10. Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of bank indebtedness, investments, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities, accrued interest payable, loans receivable and debenture debt. With regard to bank indebtedness, the short-term portion of investments, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities, and accrued interest payable, the carrying values of these financial instruments approximate current fair value due to their nature and the short-term maturity associated with them. Since provisions exist for the recovery from the Province of any defaults by municipal corporations, there is no credit risk associated with the Corporation's accounts receivable.

The Corporation's policy is to hold the long-term portion of its investments to maturity, therefore their reported value is current fair value to the Corporation.

The Corporation's loans receivable have fixed interest rates over the term of the receivables and provisions exist for the recovery from the Province of any defaults by municipal corporations. Therefore, there is no credit risk associated with the Corporation's loans receivable and the amount presented on the statement of financial position is the same as their current fair value.

The majority of the Corporation's debt is issued as serial debentures which are redeemed over a number of years at varying interest rates. In addition, the Corporation's debenture debt was used to finance loans to the Province's municipal corporations. The rates charged by the Corporation to these municipal corporations were calculated using the rates the Corporation was required to pay on its related debenture debt plus an additional percentage. Because the interest rates of the Corporation's debenture debt are fixed for the term of the debt, the Corporation is not subject to any interest rate risk relating to this debt and the debenture debt is presented at current fair value on the statement of financial position.

11. Related party transactions

The Corporation is administered by employees of the Department of Finance. The salary costs of $70,690 (2011 - $80,923) for these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

12. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the House of Assembly of the Province of Newfoundland and Labrador.

13. Comparative figures

Certain comparative figures as at 31 March 2011 and 1 April 2010 and for the year ended 31 March 2011 have been reclassified to conform to current year's presentation.

14. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Corporation. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Corporation's objectives.

15. Planned wind down of operations

The Province of Newfoundland and Labrador has decided that it will no longer refinance its portion of completed municipal capital projects through the Corporation. As a result, the Corporation will be winding up its operations over the coming years as it collects its loans receivable and repays its debenture debt.